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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 EA-07 IO-11 ISO-00 SP-02 AID-05

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-02 AF-06 NEA-10 AGR-05

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2374

INFO AMEMBASSY BRASILIA

AMEMBASSY LIMA

AMEMBASSY MEXICO

AMEMBASSY SANTIAGO

AMEMBASSY SEOUL

USUN NEW YORK 756

USMISSION EC BRUSSELS

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TAGS: EFIN, EAID, RP, UNCTAD

SUBJ: DEBT PROBLEMS OF DEVELOPING COUNTRIES AND GROUP OF 77 MEETING

REF: STATE 34445 (NOTAL)

1. SUMMARY: BENITO LEGARDA, DEPUTY GOVERNOR OF CENTRAL BANK WHO WAS MEMBER OF RP DELEGATION TO IMF INTERIM COMMITTEE IN JAMAICA AND TO RECENTLY-CONCLUDED GROUP OF 77 MEETING IN MANILA, SHARED VIEWS ON DEBT PROBLEMS OF DEVELOPING COUNTRIES WITH EMBASSY OFFICERS. LEGARDA SAID RP NEEDS CONTINUING ACCESS TO EXTERNAL LOAN SOURCES AND IS THEREFORE NOT RPT NOT EAGER TO UPSET TRADITIONAL

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CREDITOR/DEBTOR RELATIONSHIP. FOR THIS REASON, GOP SUPPORTED MOVEMENT TO MODERATE LANGUAGE IN G-77 PLAN OF

ACTION ON THIS SUBJECT, LANGUAGE WHICH LEGARDA BELIEVES RELIEVES UNWILLING LDCS FROM RESPONSIBILITY OF PARTICIPATING IN DEBT CANCELLATION OR CONSOLIDATION SCHEMES OR IN CREDITOR/DEBTOR CONFERENCE. PHILIPPINES WILL NOT OPPOSE JOINT ACTION BY OTHER LDCS TO GAIN RELIEF ON DEBT SERVICE, HOWEVER, AND REGARDS IT AS DEVELOPED COUNTRY RESPONSIBILITY TO COME UP WITH ALTERNATIVES IF THEY CANNOT RESPOND. LEGARDA WAS INCLINED ONLY PARTIALLY TO ACCEPT ARGUMENT THAT DEBT SERVICE PROBLEMS AND AID FLOWS ARE DISCRETE ISSUES. BASIC PROBLEM IN HIS VIEW IS THAT DEVELOPED COUNTRIES ARE NOT PROVIDING SUFFICIENT RESOURCE TRANSFERS TO COPE WITH PRESENT SITUATION. IN EMBASSY'S VIEW, THE GOP DOES NOT EXPECT TO GAIN FROM RECENT PROPOSALS TO RESCHEDULE OR CANCEL DEBT OBLIGATIONS, BUT NEITHER DOES IT PRESENTLY PERCEIVE THAT OWN INTERESTS WILL BE DAMAGED BY SUCH EFFORTS PURSUED BY OTHERS. WE WOULD NOT EXPECT PHILIPPINES TO OPPOSE SUCH PROPOSALS. END SUMMARY.

2. EMBASSY OFFICERS HAD USEFUL AND INTERESTING DISCUSSION ON THE DEBT PROBLEMS OF DEVELOPING COUNTRIES WITH CENTRAL BANK DEPUTY GOVERNOR BENITO LEGARDA, JR. LEGARDA WAS ONE OF TWO GOP DELEGATES (WITH SECRETARY OF FINANCE VIRATA) TO THE IMF INTERIM COMMITTEE MEETING IN JAMAICA, SO IS WELL-ACQUAINTED WITH THE ISSUES CONSIDERED THERE. LEGARDA WAS ALSO ON THE WORKING GROUP OF COMMITTEE II (MONEY AND FINANCE AND THE TRANSFER OF REAL RESOURCES) OF THE GROUP OF 77 MEETING WHICH WAS HELD IN MANILA EARLIER THIS MONTH.

3. AS HE REVIEWED THE ACTIONS OF THE LDCS TO DATE ON THIS MATTER, LEGARDA RAISED SOME INTERESTING POINTS WITH RESPECT TO THE DRAFTING OF THE COMMITTEE II REPORT. THE AFRICAN GROUP WAS ESPECIALLY KEEN FOR THE ESTABLISHMENT OF AN INTERNATIONAL BANK FOR DEBT REDEMPTION, BUT MEMBERS OF OTHER GROUPS HELD SERIOUS DOUBTS ABOUT THE PRACTICALITY OF THE PROPOSAL. THE LAST THING THE GOP WANTS, SAID LEGARDA, IS YET ANOTHER BANK, BUT IT BELIEVES THAT A FUND ADMINISTERED BY AN EXISTING INSTITUTION MIGHT LIMITED OFFICIAL USE
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BE WORKABLE. LEGARDA THOUGHT THAT THE WORDING ULTIMATELY ADOPTED IN THE COMMITTEE II REPORT IS QUITE FLEXIBLE AND SHOULD NOT CAUSE PROBLEMS FOR THE U.S. OR OTHER DEVELOPED COUNTRIES. HE CALLED SPECIAL ATTENTION TO THE FACT THAT THE COMMITTEE REPORT (ULTIMATELY ADOPTED AS PART OF THE MANILA DECLARATION AND PROGRAM OF ACTION) MAKES PROPOSALS ON CONSOLIDATION OF COMMERCIAL DEBTS APPLICABLE ONLY TO QUOTE INTERESTED DEVELOPING COUNTRIES UNQUOTE. THIS PERMITS COUNTRIES WHICH DO NOT CONSIDER THAT THEY HAVE ANYTHING TO GAIN FROM SUCH A SCHEME TO OPT OUT, AND

LEGARDA CLEARLY BELIEVES THAT THE PHILIPPINES BELONGS IN THIS CATEGORY.

4. ACCORDING TO LEGARDA, THE PHILIPPINES IS ONE OF THOSE LDC DEBTORS WHICH BELIEVES THAT IT HAS A REASONABLE DEGREE OF CONROL OVER ITS DEBT PROBLEM, ESPECIALLY NOW THAT SIGNS ARE POINTING TOWARD STRONG BUT MEASURED RECOVERY IN THE U.S. THE PHILIPPINES HAS BEEN SUCCESSFUL IN TAPPING COMMERCIAL LOAN MARKETS, AND LEGARDA AGREED THAT THE GOP WISHES TO MAINTAIN ITS CREDITWORTHINESS AND AVOID DISTURBING TRADITIONAL DEBTOR/CREDITOR RELATIONSHIPS. THUS, THE RP WILL NOT WISH TO ADVOCATE ANY RESCHEDULING SCHEME, OR FOR THAT MATTER PARTICPATE IN A DEBTOR/CREDITOR CONFERENCE.

5. THE G-77 PROGRAM OF ACTION ALLOWS THE OPTION OF PARTICIPATION ON THE PART OF DEBTOR LDCS. THE PROGRAM CALLS FOR A QUOTE CONFERENCE OF MAJOR DEVELOPED CREDITOR AND INTERESTED DEBTOR COUNTRIES UNQUOTE. LEGARDA SAID THAT THE QUOTE MAJOR DEVELOPED CREDITOR UNQUOTE FORMULATION WAS, NOT SURPRISINGLY, AT THE REQUEST OF THE OPEC COUNTRIES. ACCORDING TO LEGARDA, NOT ONLY DOES NO ONE IN THE G-77 WISH TO CROSS THE OPEC COUNTRIES, BUT THEY ARE BY TACIT AGREEMENT NOT EVEN REFERRED TO AS THE OPEC COUNTRIES.

6. LEGARDA AGREED WITH THE PROPOSITION THAT PROGRESS TOWARD MEETING SOME SHORT-TERM INANCING PROBLEMS WAS ACHIEVED AT THE INTERIM COMMITTEE IN JAMAICA, EVEN THOUGH THAT PROGRESS WAS ONLY PARTIAL AND TEMPORARY, AND CERTAINLY LESS THAN SOME LDCS HAD HOPED FOR. HE CONTRASTED LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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THE ATMOSPHERE IN JAMAICA, WHICH WAS BUSINESSLIKE AND PRAGMATIC, WITH THAT IN MANILA, WHICH HAD AN AURA OF UNREALITY. HE SAID THAT A LARGE SHARE OF RESPONSIBILITY FOR FOSTERING THIS UNREALISTIC APPROACH HAD TO BE LAID AT THE DOOR OF THE UNCTAD SECRETARIAT, WHICH PREPARED CONFERENCE DOCUMENTS ESSENTIALLY IGNORING THE RESULTS OF THE JAMAICA MEETING.

7. WHILE AGREEING THAT DEBT SERVICE PROBLEMS ARE PROBABLY A RELATIVELY MINOR PART OF THE PROBLEMS OF MOST MSA'S, LEGARDA WAS NOT VERY SYMPATHETIC TO THE PROPOSITION THAT THEY SHOULD BE SEPARATED ENTIRELY FROM THE GENERAL PROBLEM OF AID FLOWS. HE THOUGHT THAT THE DEVELOPED COUNTRIES, BY EMPHASIZING THIS DISTINCTION, WERE SEARCHING FOR WAYS TO QUOTE SALVE THEIR CONSCIENCES UNQUOTE OVER FAILURE

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 EA-07 IO-11 ISO-00 SP-02 AID-05

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-02 AF-06 NEA-10 AGR-05

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R 230923Z FEB 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2375

INFO AMEMBASSY BRASILIA

AMEMBASSY LIMA

AMEMBASSY MEXICO

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O MAKE ADEQUATE PROVISION FOR THE RESOURCE TRANSFERS THAT ARE NEEDED. THE BASIC ISSUE, IN LEGARDA'S VIEW, IS THAT AID FLOWS NOW AMOUNT TO ONLY 0.29 PERCENT OF DEVELOPED COUNTRY GNP; TOTAL RESOURCE TRANSFERS ARE THUS INADEQUATE AND LDC'S MUST COMPETE AMONG THEMSELVES FOR THE MEAGER ASSISTANCE AVAILABLE. IT WAS IN FACT SUGGESTED IN G-77 CORRIDORS, ACCORDING TO LEGARDA, THAT LIMITING AID FLOWS TO THIS LEVEL IS PART OF A DIVIDE AND CONQUER CONSPIRACY AMONG DEVELOPED NATIONS TO CAUSE LDC'S TO FIGHT OVER THE CRUMBS. AS A RESULT, HE SAID, QUOTE BASKET CASES UNQUOTE TEND TO ABSORB THE LION'S SHARE OF RESOURCE TRANSFERS, AT THE EXPENSE OF THE MORE ADVANCED LDC'S WHICH COULD POSSIBLY PUT THE ASSISTANCE TO BETTER

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USE AND WHICH MORE ADVANCED LDC'S RESENT.

8. IT IS CLEARLY LEGARDA'S VIEW THAT THE U.S. AND OTHER DEVELOPED COUNTRIES HAVE THE RESPONSIBILITY TO OFFER SOME MEANINGFUL SOLUTION TO THIS BASIC PROBLEM OF RESOURCE TRANSFER. WHILE THE RP WOULD NOT PARTICIPATE IN A DEBTOR/ CREDITOR CONFERENCE, SOME OF THE MSA'S APPARENTLY THINK THAT SUCH A CONFERENCE WILL BE TO THEIR ADVANTAGE, AND QUOTE IF THEY FEEL THEY CAN GAIN MORE BY JOINING A CLUB, THEN THEY SHOULD DO SO UNQUOTE. LEGARDA CLAIMED TO APPRECIATE THE VIEWPOINT OF THE USG THAT SUCH A CONFERENCE IS AN INAPPROPRIATE VEHICLE FOR DEALING WITH FINANCING DIFFICULTIES, AND THAT THE INABILITY OF THE DEVELOPED COUNTRIES TO BE FORTHCOMING IN SUCH A CONFERENCE COULD INCREASE THE CONFRONTATIONAL CHARACTER OF THE NORTH-SOUTH DIALOGUE. NEVERTHELESS, HE THOUGHT THAT SUCH A CONFERENCE WOULD BE DEMANDED AT UNCTAD IV IN NAIROBI, AND THAT IT IS THEREFORE UP TO THE U.S. AND OTHER DEVELOPED COUNTRIES TO COME UP WITH ALTERNATIVE SOLUTIONS.

9. COMMENT: EMBASSY BELIEVES THAT LEGARDA'S VIEWS ARE CONGRUENT WITH THOSE OF SECRETARY OF FINANCE VIRATA, AND THAT THEY FAIRLY REPRESENT THE POSITION OF THE GOP.

10. WHILE THE GOP MAY BE UNENTHUSIASTIC ABOUT A DEBTOR/ CREDITOR CONFERENCE, IT CANNOT AFFORD TO BREAK SOLIDARITY WITH OTHER LDCS AND OPPOSE A CONFERENCE. THE PHILIPPINES IS SENSITIVE TO ITS IMAGE IN THE THIRD WORLD, AND LEGARDA BELIEVED, FOR EXAMPLE, THAT THEIR REALISTIC AND PRAGMATIC APPROACH AT THE IMF INTERIM COMMITTEE MEETING HAD CAUSED SOME OTHER DELEGATIONS TO LOOK ON THE PHILIPPINE DELEGATES SUSPICIOUSLY AS QUOTE UNCLE TOMS UNQUOTE. THEY HAVE PROBABLY GONE ABOUT AS FAR AS THEY CAN BY SUPPORTING THE QUOTE INTERESTED DEVELOPING COUNTRY UNQUOTE FORMULATION, BY WHICH THE PHILIPPINES IS RELEASED FROM FURTHER OBLIGATION TO PUSH THIS ISSUE AND THEREBY, IT HOPES, PRESERVES ITS OWN VALUED ACCESS TO OFFICIAL AND COMMERCIAL LOANS.

11. PHILIPPINE OFFICIALS DO APPRECIATE THAT MANY OF LIMITED OFFICIAL USE

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THE OBJECTIVES WHICH CAME OUT OF THE G-77 ARE PROBABLY UNREALISTIC, AND THEY ARE AWARE OF THE FACT THAT PURSUING ADDITIONAL AID FLOWS IN THIS MANNER IS LIKELY TO BE UNACCEPTABLE AND PERHAPS EVEN UNCONSTITUTIONAL FOR THE

CREDITOR COUNTRIES. THE RP HAS HOWEVER REMOVED ITSELF FROM ACTIVE PARTICIPATION IN THE ISSUE, AND TENDS TO SEE RESPONSIBILITY FOR AVOIDING LDC FRUSTRATION AS RESTING ON THE SHOULDERS OF THE DEVELOPED COUNTRIES.

12. THIS LATTER ASPECT IS ONE POSITIVE ARGUMENT FOR MORE ADVANCED LDCS LIKE THE RP AT LEAST TO STAND ASIDE WHILE OTHERS PURSUE DEBT CANCELLATION AND RESCHEDULING. TO THE EXTENT THAT IT FOCUSES ATTENTION ON THE DISCREPANCY BETWEEN THE STATED OFFICIAL DEVELOPMENT ASSISTANCE GOALS AND ACTUAL PERFORMANCE BY DEVELOPED COUNTRIES, IT COULD RESULT IN MEASURES TO CORRECT THE GAP.

13. WE WOULD NOT, THEREFORE, EXPECT THE GOP TO EXPRESS OPEN OPPOSITION TO THE DEBT RELIEF MEASURES PASSED BY THE G-77 (HOWEVER UNREALISTIC THE GOP MAY CONSIDER THEM TO BE) FOR AT LEAST THREE REASONS: 1) THE PHILIPPINES IS ALREADY SUSPECT AMONG OTHER LDCS, AND THE ISSUE IS NOT SUFFICIENTLY IMPORTANT TO RISK FURTHER DOUBTS ABOUT ITS THIRD-WORLD CREDENTIALS; 2) THE PROPOSAL HAS SOME VALUE AS A BARGAINING CHIP TO EXTRACT ADDITIONAL AID FLOWS FROM THE WEALTHY NATIONS; AND 3) THE GOP CAN HOPE THAT, BY LIMITING ACTION ONLY TO INTERESTED DEVELOPING COUNTRIES, THE PROGRAM OF ACTION TO BE PROMOTED BY THE G-77 WILL LEAVE CONTINUED PHILIPPINE ACCESS TO OFFICIAL AND COMMERCIAL LOANS UNENDANGERED.
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